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# African Economic Development: What Role Can the G20 Compact Play?

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## Abbreviations

| | |
|---|---|
| AfDB | African Development Bank |
| BRICS | Brazil, Russia, India, China and South Africa |
| BMZ | German Federal Ministry for Economic Cooperation and Development / Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung |
| CPI | Corruption Perceptions Index |
| CPIA | Country Policy and Institutional Assessment |
| CWA | Compact with Africa |
| EDBI | Ease of Doing Business Index |
| ERGP | Economic Recovery and Growth Plan |
| FDI | foreign direct investment |
| GDP | gross domestic product |
| ICT | information and communication technology |
| IMF | International Monetary Fund |
| IO | international organisation |
| MTEF | Medium-Term Expenditure Framework |
| NIIMP | National Integrated Infrastructure Master Plan |
| PIDA | Programme for Infrastructure Development in Africa |
| PPP | public–private partnership |
| SAP | structural adjustment programme |
| SDG | Sustainable Development Goal |
| SME | small and medium-sized enterprise |

## Executive summary

Under the German Presidency of the G20 in 2017, the G20 Africa Partnership was launched "in recognition of the opportunities and challenges in African countries as well as the goals of the 2030 Agenda" (G20 Germany, 2017, p. 13). Its ultimate objective is to "foster sustainable and inclusive economic growth and development […] thus helping to address poverty and inequality as root causes of migration" (G20 Germany, 2017, p. 13). The most prominent instrument developed during the German Presidency to achieve this objective is arguably the Compact with Africa (CWA) initiative, which consists of "investment compacts" with individual African countries. The CWA initiative aims to mobilise private capital and to promote the efficient use of public resources so as to increase private- and infrastructure investment in Africa.

In this discussion paper, we provide a critical assessment of the role that these compacts could play for African development. In doing so, we first review Africa's recent economic performance. We specifically examine the extent to which growth was associated with (i) poverty reduction, (ii) changes in the sectoral composition of economic activities, and (iii) higher investment levels and increased resource mobilisation. To assess whether conditions for sustained economic growth have improved, we also track key indicators of economic governance over time.

Against this background, the main part of the paper is devoted to the analysis of the CWA initiative itself. Based on the joint report by the African Development Bank, the International Monetary Fund and the World Bank prepared for the G20 Finance Ministers and Central Bank Governors Meeting in March 2017, we first discuss the main ingredients of the investment compacts, including the requirements that applicants from Africa have to meet in order to qualify for a compact. We then consider the motivations and incentives of the main actors involved in the compacts, distinguishing two basic perspectives. On the one hand, for the CWA initiative to take off and survive rotating G20 Presidencies, it is necessary to garner support for it among G20 member countries. On the other hand, the investment compacts will only work if partner countries have sufficient ownership of the programmes. The G20 Leaders have reiterated this point in their declaration at the Hamburg Summit, stating that "based on equal partnership, we strongly welcome African ownership and commit to align our joint measures with regional strategies and priorities, in particular the African Union's Agenda 2063 and its Programme for Infrastructure Development in Africa (PIDA)" (G20 Germany, 2017, p. 13). Focussing on the 10 countries (Benin, Cote d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Morocco, Rwanda, Senegal and Tunisia) that have already expressed their willingness to enter an investment compact, we examine the extent to which individual compacts respond to the specific needs of the participants, and ask more generally whether the investment concept underlying the compacts is appropriate. The issue we subsequently address is how other African countries can be added to the list of beneficiaries of the CWA initiative, taking the case of Nigeria as an illustration. Nigeria is representative of a number of other African countries, in the sense that it faces daunting institutional challenges without belonging to the failed states, where even the most basic pre-conditions for productive investment are missing. If this group of countries lacks a realistic option of participating in the medium run, the reach of the CWA initiative will remain severely circumscribed. Finally, we discuss whether the CWA initiative is in accordance with the goals of the 2030 Agenda.

*Conclusions*

We argue that, despite some undeniable positive developments since the early 2000s, Africa's future prospects for sustained and inclusive economic growth remain highly uncertain. As became obvious in the recent phase of falling commodity prices, many African economies still depend too strongly on natural resources. This not only leads to volatility in growth rates but also implies that growth is associated with insufficient poverty reduction. Furthermore, both public and private investment rates are still low in Africa, as compared to other developing regions. Finally, and perhaps most fundamentally, systematic improvements in economic governance have only occurred in a few African countries, which may partly explain the existing investment gaps. With its emphasis on raising investment based on a stable macroeconomic and regulatory framework, the G20 Compact with Africa could therefore play an important role in addressing key remaining bottlenecks.

Yet, for a variety of reasons, it is far from clear whether the G20 Compact with Africa will live up to expectations. We find that, despite its potential to bring important structural benefits and financial flows to Africa, the overall scope of the CWA investment concept is rather limited. In this regard, we find that the absence of important factors, such as investments in education and, in particular, vocational training, might limit the CWA's success when it comes, for example, to tackling youth unemployment. There also appears to be too strong of a focus on FDI, as compared to strengthening domestic investment. Furthermore, judged against its recognition of the goals of the 2030 Agenda, the CWA too narrowly focusses on achieving economic growth in Africa. To bring the CWA more closely into line with the 2030 Agenda, it should at least be ensured that the likely poverty impacts of the investment programmes are systematically assessed so as to render them as pro-poor as possible. Since African livelihoods critically depend on environmental conditions such as clean water and a stable climate, the possible negative externalities of investments should also explicitly be taken into account when implementing the CWA.

We additionally find that the CWA is rather non-transparent in several aspects. It is not very clear, for example, how decisions within the CWA are made, and it is hardly possible to track financial flows. Another ambiguity relates to the criteria that countries have to meet in order to qualify for participation in the CWA. As shown for the example of Nigeria, which even has a reform agenda in place that cuts across the three frameworks of the CWA, it is hard to assess what it takes to enter an agreement. Put differently, it would be easier for prospective participants of the CWA to take the necessary preparatory steps if the criteria were sufficiently transparent.

Finally, the CWA can only be successful if both the G20 members and the African partners take responsibility for it. Concerning ownership, it is reasonable to be sceptical of whether the commitment to support the CWA goes beyond the German G20 Presidency. While being interested in fostering private investments and infrastructure in Africa, major players within the G20 appear to have their own interests and approaches that might compete with the CWA. It should be acknowledged that the G20 countries and the international organisations emphasise African ownership. Even if it is not yet clear what role conditionality will play, we conclude that the demands of African partners are generally represented within the CWA framework. However, against the backdrop of existing comprehensive African agendas, such as Agenda 2063 and its Programme for Infrastructure Development in Africa in particular, the CWA's self-attributed focus on local ownership appears to be somewhat inconsistent. A thorough approach to strengthen African ownership would have built more widely on local ideas and agendas, rather than setting up a new scheme exogenously. However, as the CWA will not be reversed, it is crucial to ensure that it goes together with local interests and priorities. This is arguably the most critical pre-condition for a successful CWA, because past experience – for example with structural adjustment programmes – has shown that, without strong local ownership, development assistance from the international community is likely to fail.

Overall, there is considerable scope for improvements in implementing the CWA. These are essential if the CWA is to play an important role for Africa. Still, only time will tell whether the CWA can maintain its momentum in a complex setting of changing G20 Presidencies and divergent development cooperation concepts.

# 1 Introduction

Under the German Presidency of the G20 in 2017, the G20 Africa Partnership was launched "in recognition of the opportunities and challenges in African countries as well as the goals of the 2030 Agenda" (G20 Germany, 2017, p. 13). Its ultimate objective is to "foster sustainable and inclusive economic growth and development […] thus helping to address poverty and inequality as root causes of migration" (G20 Germany, 2017, p. 13). The most prominent instrument developed during the German Presidency to achieve this objective is arguably the Compact with Africa (CWA) initiative, which consists of "investment compacts" with individual African countries. The CWA initiative aims to mobilise private capital and to promote the efficient use of public resources so as to increase private- and infrastructure investment in Africa.

In this discussion paper, we provide a critical assessment of the role that these compacts could play for African development. Such an assessment necessarily has to be tentative and preliminary, given that the implementation of the compacts is currently in its early stages. Yet, it is possible to evaluate at a conceptual level whether the compacts are suited to address key development challenges that many African countries face. In doing so, we first review Africa's recent economic performance (Section 2). The focus is on the question of whether Africa's "growth miracle" in the early 2000s was merely a resource boom or also reflected some deeper structural transformation. We specifically examine the extent to which growth was associated with (i) poverty reduction, (ii) changes in the sectoral composition of economic activities, and (iii) higher investment levels and increased resource mobilisation. To assess whether conditions for sustained economic growth have improved, we also track key indicators of economic governance over time.

Against this background, the main part of the paper (Section 3) is devoted to the analysis of the CWA initiative itself. Based on the joint report by the African Development Bank (AfDB), the International Monetary Fund (IMF) and the World Bank prepared for the G20 Finance Ministers and Central Bank Governors Meeting in March 2017 (AfDB, IMF, & World Bank, 2017), we first discuss the main ingredients of the investment compacts, including the requirements that applicants from Africa have to meet in order to qualify for a compact (Section 3.1). In Section 3.2, we consider the motivations and incentives of the main actors involved in the compacts, distinguishing two basic perspectives. On the one hand, for the CWA initiative to take off and survive rotating G20 Presidencies, it is necessary to garner support for it among as many G20 member countries as possible. On the other hand, the investment compacts will only work if the international financial institutions refrain from imposing conditions on the partner countries in such a way that the latter lack sufficient ownership of the programmes. This is a key lesson learnt from the experiences with aid conditionality in the structural adjustment programmes (SAPs) under the auspices of the IMF and the World Bank (e.g. Svensson, 2003). The G20 Leaders reiterated this point in their declaration at the Hamburg Summit, stating that "based on equal partnership, we strongly welcome African ownership and commit to align our joint measures with regional strategies and priorities, in particular the African Union's Agenda 2063 and its Programme for Infrastructure Development in Africa (PIDA)" (G20 Germany, 2017, p. 13).

Section 3.3 deals with the 10 countries (Benin, Cote d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Morocco, Rwanda, Senegal and Tunisia) that have already expressed their willingness to enter an investment compact. It examines the extent to which individual compacts respond to the specific needs of the participants – or, rather, provide one-size-fits-all solutions – and asks more generally whether the investment concept underlying the compacts is appropriate. The problem we subsequently address in Section 3.4 is how other African countries can be added to the list of beneficiaries of the CWA initiative. We take the case of Nigeria – by far the most populous country in Africa – as an illustration. Nigeria is representative of a number of other African countries, in the sense that it faces daunting institutional challenges without belonging to the failed states, where even the most basic pre-conditions for productive investment are missing. If this group of countries lacks a realistic option of participating in the medium run, the reach of the CWA initiative will remain severely circumscribed. Finally, we discuss whether the CWA initiative is in accordance with the goals of the 2030 Agenda.

# 2 Africa's development in the 2000s: Commodity boom or more?

## 2.1 Growth and poverty reduction

The past decade and a half has been a period of persistent growth for Africa (e.g. Diao & McMillan, in press). However, real gross domestic product (GDP) growth varied among different regions in Africa and over time, as shown in Table 1 for recent years.

**Table 1: GDP growth in Africa**

| | 2008-12 | 2013 | 2014 | 2015 | 2016(e) | 2017(p) | 2018(p) |
|---|---|---|---|---|---|---|---|
| **Real GDP growth (%)** | | | | | | | |
| Central Africa | 4.9 | 4.0 | 6.0 | 3.6 | 0.8 | 2.2 | 3.8 |
| East Africa | 5.6 | 7.2 | 5.9 | 6.5 | 5.3 | 5.7 | 6.0 |
| North Africa | 4.4 | 1.7 | 1.5 | 3.3 | 3.0 | 3.4 | 3.7 |
| Southern Africa | 3.1 | 3.7 | 2.8 | 1.9 | 1.1 | 1.9 | 2.6 |
| West Africa | 6.2 | 5.7 | 6.1 | 3.3 | 0.4 | 3.5 | 5.5 |
| **Africa** | 4.7 | 3.9 | 3.7 | 3.4 | 2.2 | 3.4 | 4.3 |
| Oil-exporting countries | 5.0 | 3.5 | 3.6 | 3.3 | 1.6 | 3.0 | 4.1 |
| Oil-importing countries | 4.2 | 4.6 | 3.9 | 3.6 | 3.0 | 4.0 | 4.4 |

Notes: e = estimates; p = projections.
Source: African Economic Outlook (2017)

A challenging – and highly debated – question relates to the determinants of the observed growth pattern in Africa. High commodity prices – and, in particular, high oil prices over an extended period – have been proposed as a key driver of Africa's recent growth performance. Changes in prices, such as during the oil-price boom in 2008, have clearly had an effect on growth. Between 2008 and 2012, oil-exporting African countries experienced 5.0 per cent growth, compared to 4.2 per cent for oil-importing countries, suggesting that the former group of countries indeed benefited from the boom.[1] After 2012, signs began reversing, and oil-importing countries consistently began to outperform. Only in 2016, when oil prices dropped sharply, did a relatively large gap appear, with 1.6 per cent growth in oil-exporting countries and 3.0 per cent growth in oil-importing countries (see Table 1). Notably, despite the existence of resource-rich countries in the region, East African growth barely changed during both the oil-price boom and the subsequent downturn, which suggests that there must be more to growth than commodity prices. Terms of trade changes might explain short- to medium-term effects, but explanations for long-run growth trajectories have to include other – and not only purely economic – factors, such as accountable government (e.g. Radelet, 2010).

Since the CWA strives for "sustained and inclusive growth", information on the linkages between growth and poverty reduction is of utmost importance. In the literature, it is widely acknowledged that economic growth is fundamental to reductions in both monetary and non-monetary poverty (e.g. Arndt et al., 2016). Yet, GDP growth does not automatically translate into less poverty, and the so-called growth elasticity of poverty varies substantially across African countries. Following Arndt, McKay and Tarp (2016), it is necessary to differentiate between countries that have experienced high growth rates accompanied by poverty reduction, and those that experienced growth but no – or only limited – poverty reduction. Additionally, to complete the picture, countries that have persistently high poverty levels and lack considerable growth also need to be taken into account. Furthermore, there are also a number of countries for which data on poverty (and partly also on growth) is unavailable, particularly in so-called failed states (e.g. Somalia and Democratic Republic of Congo), which in any case are unlikely to participate in the CWA.

**Table 2: Growth and poverty in Ethiopia and Nigeria**

| Country | Year | Poverty headcount* (% change) | Average annual growth rate (%) (period) |
|---|---|---|---|
| **Ethiopia** | 1995 | 66.4 | |
| | 1999 | 55.4 (-16.57) | |
| | 2010 | 33.5 (-39.53) | 7.31 (1995-2010) |
| **Nigeria** | 1996 | 63.5 | |
| | 2003 | 53.5 (-15.75) | |
| | 2009 | 53.5 (0) | 7.16 (1996-2009) |

Notes: *At USD 1.90 a day (2011 purchasing power parity) (% of population).
Source: World Bank (2017b)

1 Note that the global financial crisis in 2008 affected growth in Africa negatively and contributed to the drop from 5.3 per cent in 2008 to 3.4 per cent in 2009. However, growth rates went back up to 5.7 per cent in 2010 (AfDB Statistics, 2017). Due to the low level of financial integration, the impacts of the crisis were limited and mainly driven by indirect effects.

To illustrate that poverty reduction is not a natural consequence of growth, we take the cases of Ethiopia and Nigeria as examples.[2] Table 2 shows that within a similar time frame – from the mid-1990s until 2009-10 – both countries experienced a similar average growth rate of slightly above 7 per cent. However, changes in poverty levels differed a lot. Whereas Ethiopia, an oil-importing country, was able to halve its poverty headcount, Nigeria, a major oil-exporting country, experienced a reduction of only 15.8 per cent. Importantly, Nigeria's decrease in poverty occurred before the oil-price boom, indicating again that favourable terms of trade changes do not necessarily translate into poverty reductions.

The Ethiopian upsurge was shaped by productivity-enhancing investments in agriculture, vast improvements in infrastructure, and the provision of safety nets for poor and vulnerable people that proved to be especially helpful during food crises (e.g. Coll-Black et al., 2011). Broad-based growth was initially due to large increases in real agricultural GDP and, recently, followed by growing services and industrial sectors. Alongside this economic transition from agriculture to services and industry, major non-monetary improvements took place. Here, especially the fundamental increase in adult literacy rates – from 33.6 to 55 per cent between 1994 and 2007 – is worth noting and underlines the importance of education for transformation (UNESCO Institute for Statistics, 2017). Overall, Ethiopia's pathway provides a good example for how effective growth and fundamental changes stimulate poverty alleviation (Stifel & Woldehanna, 2016). Other cases in which growth accompanied strong poverty reduction can, for instance, be found in Ghana, Botswana and Rwanda.

Given Nigeria's sound growth and huge revenues from oil exports, it might be surprising to learn that it was not able to experience similar positive developments. In the case of Nigeria, as well as other oil-dependent states such as Angola and Sudan, oil appears to be foremost a burden and not a blessing. Main drivers are the well-known "Dutch disease" effect and conflicts as a consequence of available resource rents, which prepare the ground for corruption and inequality. Several government programmes designed to address poverty alleviation and support human capital in Nigeria have been put in place. However, due to weak administration and corruption, none of them have shown noteworthy outcomes for the poor (Oshewolo, 2010). The Nigerian example teaches an important lesson: although resource wealth might lead to positive economic growth, it often hampers the important structural and institutional changes that are needed to improve the lives of the poor. Other resource-rich countries such as Zambia exhibit similar patterns, but Botswana's experience also shows that resource wealth does not inevitably inhibit poverty reduction. The case of Mozambique illustrates that, even in less resource-dependent economies, growth and poverty reduction do not necessarily go hand in hand.

Overall, those who are developing schemes aiming at sustainable and inclusive growth, such as the CWA, need to be aware of the complex links between growth and poverty alleviation. These links are highly country-specific, and resource endowments are important determining factors, but not the only ones.

2 Ethiopia and Nigeria are chosen as examples because they clearly illustrate the described differences regarding growth–poverty linkages across African countries. For further information on poverty and growth in Africa, see for example Arndt et al. (2016).

## 2.2 Structural change

Having shown that the commodity boom played a significant role in – but cannot fully explain – Africa's growth since the early 2000s, we now turn to the question of whether growth was associated with the significant structural transformation of the African economies and whether that could provide the basis for sustained future development.

As concerns the sectoral composition of economic growth before the recent fall in commodity prices, value added per capita in agriculture grew on average by 1 per cent over the period 2000-2013, which is well below the average aggregate growth rate of 2.5 per cent (Thiele & Wiebelt, 2016). This is to be expected in a growing economy because the agricultural sector mainly produces food for the domestic market, on which a declining share of household expenditure is spent as incomes rise. The growth of the manufacturing sector was roughly equal to the economy-wide average rate, whereas the services sector grew by one percentage point more than the average.

This sectoral growth pattern implies that Africa's growth in the 2000s must have gone hand in hand with a certain degree of structural change. Indeed, the share of agricultural employment in total employment fell significantly, particularly in countries with strong agricultural productivity growth. McMillan and Harttgen (2014) show for a sample of 19 sub-Saharan African countries that, between 2000 and 2010, the share of the labour force employed in agriculture declined by roughly 10 percentage points. This was mirrored by a 2 percentage-point increase in the share of the labour force engaged in manufacturing and an 8 percentage-point increase in services. The share of the labour force engaged in mining did not change, which provides additional evidence in favour of the view that, at least on average, the African growth episode was not a mere resource boom. Structural transformation, that is, the reallocation of labour from agriculture into more productive sectors outside agriculture, accounted for roughly half of Africa's growth in output per worker (McMillan & Harttgen, 2014).[3]

In contrast to the previous East Asian experience, the fall in agricultural employment was not associated with an expansion of the formal industrial sector and the creation of mass employment for unskilled workers in larger, mostly export-oriented firms. Rather, a large number of small and medium-sized enterprises (SMEs) have been established in manufacturing, construction, transport and various production-related services. Most of these enterprises belong to the informal sector and mainly produce for the domestic market. They are often unregistered and, thus, not fully captured in official statistics, which renders it difficult to assess their contribution to economic development.[4] Nationally representative surveys of SMEs conducted in several African countries (e.g. in Nigeria, Rwanda, Tanzania and Zambia) suggest, however, that the widely held view of the African informal sector serving as a reservoir of traditional enterprises stagnating at low levels of production does

3 Based on a different dataset and a different sample, Diao, Harttgen and McMillan (2017) basically corroborate this finding; they estimate that structural change accounts for a somewhat lower share (40 per cent) of Africa's annual labour productivity growth.

4 The recent national account revisions in Nigeria and Ghana illustrate this point: In these countries, value added figures were revised upwardly by 89 and 60 per cent, respectively, which was mostly due to an improved coverage of activities by small and informal manufacturing and services (Diao & McMillan, in press).

not adequately characterise the situation. In Tanzania, for example, 60 per cent of the entrepreneurs participating in the survey reported that their businesses were expanding (Diao & McMillan, in press). Still, the productivity increases realised so far have been much lower than what East Asia experienced (Rodrik, 2014).

Since Africa's structural transformation is still in its early stages, it is likely to open up new opportunities for national and foreign investments, and the CWA initiative could potentially provide a means to speed up this process.

## 2.3 Investment and revenue mobilisation

Rising investment has indeed contributed to the growth that Africa has experienced since the early 2000s. Looking at GDP from the demand side, it turns out that in most of the fast-growing African countries, the share of gross fixed investment in GDP increased quite significantly over the period 2000-2013 (Thiele & Wiebelt, 2016). The African average, however, is still below 20 per cent, which falls clearly short of the investment-to-GDP ratio of 25 per cent or more that has been estimated to be required over an extended period to get onto a sustainable and inclusive growth path (AfDB, IMF, & World Bank, 2017).

Among the potential sources of investment, inflows of foreign direct investment (FDI) have experienced an overall upward trend, albeit with some fluctuations: FDI inflows fell, for example, quite considerably during the most recent financial crisis in 2008, and again in 2015 as a result of lower commodity prices (AfDB, OECD [Organisation for Economic Co-operation and Development], & UNDP [United Nations Development Programme], 2017).[5] Although mineral-resource-rich countries remain the principal destination for FDI flows, the share of non-resource-rich countries has increased from 24 per cent in 2009 to 33 per cent in 2015 and is projected to rise further to 40 per cent in 2017 (AfDB, OECD, & UNDP, 2017). Foreign investments are also increasingly diversifying into manufacturing and services. In 2015, for instance, financial and business services, communication, software and real estate accounted for the majority of Kenyan FDI inflows, whereas in Ethiopia, textiles and agro-processing were among the main focus areas of new investments.

At slightly above USD 50 billion in 2015, the value of foreign aid to Africa is in the same order of magnitude as that of FDI, but its relative importance is diminishing. The share of foreign aid in total external flows declined from 37 per cent in the period 2002-2006 to 28 per cent in the period 2012-2016, a trend that is projected to continue (AfDB, OECD, & UNDP, 2017). This is not to deny, however, that international public flows will remain a key pillar of development finance, especially for low-income African countries, where foreign aid accounts for more than 50 per cent of total external finance.

The largest source of external finance for Africa – at USD 65 billion in 2015 – is migrant remittances. Remittances have the advantage of being much less volatile than either FDI or foreign aid. It has to be noted that remittances are, of course, used by the receiving household members for a number of purposes other than investment, such as food

5 Portfolio investment, by contrast, is decreasing and accounted for a mere 5 per cent of private financial flows in 2016. One objective of the CWA is to improve the conditions for a stronger role of bond finance (see Section 3.1).

consumption, education and health expenditures, and the construction of private houses. Yet, they can also provide resources for investment if, for example, members of the diaspora finance local development projects or enable their families to establish small businesses.

Besides attracting external flows, domestic resource mobilisation is an important component when it comes to financing public investment. In this regard, Africa's governments have been moderately successful, at best. Resource-rich countries have mainly relied on resource rents and accordingly experienced a dramatic drop in domestic revenues when commodity prices fell: resource revenues decreased from 15 to 9 per cent of GDP, while direct and indirect taxes combined remained flat at a low 10 per cent of GDP (AfDB, OECD, & UNDP, 2017). Non-resource-rich countries fared somewhat better. On average, they raised their revenues from direct and indirect taxes between 2005 and 2015 by about 1 percentage point: from 12.5 per cent to 13.5 per cent.

## 2.4 Quality of institutions

Within the relevant literature, there is widespread consensus that, without basic regulatory and institutional frameworks, long-term economic growth is virtually impossible. Throughout this paper, we focus on *economic* governance, which figures prominently in the CWA framework. This includes legal certainty, absence of corruption and efficiency in public administration. By international comparison, Africa's performance comes far behind in all these dimensions, according to leading governance indicators such as the Ease of Doing Business Index (EDBI) and the Corruption Perceptions Index (CPI).[6] Mauritius is the only African country among the Top 50 (of 190) in the EDBI 2016, and only four sub-Saharan African countries are among the Top 50 (of 176) in the CPI 2016 (Botswana, Cape Verde, Mauritius and Rwanda). Underlining this weak performance, 35 and 23 of the 50 worst-ranked countries in the EDBI and CPI, respectively, are located in Africa.

Looking at recent changes in economic governance indicators, we do not find any clear pattern emerging for the continent as a whole. Aside from a major group of countries with persistently low levels of institutional quality, there are some countries that have made major improvements, whereas others' performance has deteriorated severely. Rwanda, for instance, was not only able to improve its environment for investors, but it also climbed up the CPI ladder from rank 102 in 2008 to rank 54 in 2016. Positive developments, albeit not as significant, can also be found, for example, in Cote d'Ivoire as well as Zambia. In contrast, there are several other countries, such as Uganda and Madagascar, where governance has clearly worsened. Overall, in a majority of African countries, substantial efforts are still needed in order to meet the institutional requirements for sustained – and possibly improved – growth trends.

6 The EDBI is mainly catering to the needs of enterprises, which is in line with the current CWA focus on attracting foreign investment. It can be argued, however, that a broader concept of economic governance – including, for example, the efficient provision of public goods – is required if the goal is to foster inclusive growth (see Section 3.5).

| Table 3: Ease of Doing Business Index 2016 – Africa | | | | | |
|---|---|---|---|---|---|
| Rank (world) | Country | Doing Business 2016 | Rank (world) | Country | Doing Business 2016 |
| 1 (49) | Mauritius | 49 | 28 (154) | Togo | 154 |
| 2 (56) | Rwanda | 56 | 29 (155) | Benin | 155 |
| 3 (68) | Morocco | 68 | 30 (156) | Algeria | 156 |
| 4 (71) | Botswana | 71 | 31 (157) | Burundi | 157 |
| 5 (74) | South Africa | 74 | 32 (159) | Ethiopia | 159 |
| 6 (77) | Tunisia | 77 | 33 (160) | Mauritania | 160 |
| 7 (92) | Kenya | 92 | 34 (161) | Zimbabwe | 161 |
| 8 (93) | Seychelles | 93 | 35 (162) | Sao Tome and Principe | 162 |
| 9 (98) | Zambia | 98 | 36 (163) | Guinea | 163 |
| 10 (100) | Lesotho | 100 | 37 (164) | Gabon | 164 |
| 11 (108) | Ghana | 108 | 38 (166) | Cameroon | 166 |
| 11 (108) | Namibia | 108 | 39 (167) | Madagascar | 167 |
| 13 (111) | Swaziland | 111 | 40 (168) | Sudan | 168 |
| 14 (115) | Uganda | 115 | 41 (169) | Nigeria | 169 |
| 15 (122) | Egypt | 122 | 42 (171) | Djibouti | 171 |
| 16 (129) | Cape Verde | 129 | 43 (172) | Guinea-Bissau | 172 |
| 17 (132) | Tanzania | 132 | 44 (174) | Liberia | 174 |
| 18 (133) | Malawi | 133 | 45 (177) | Congo, Rep. | 177 |
| 19 (137) | Mozambique | 137 | 46 (178) | Equatorial Guinea | 178 |
| 20 (141) | Mali | 141 | 47 (180) | Chad | 180 |
| 21 (142) | Cote d’Ivoire | 142 | 48 (182) | Angola | 182 |
| 22 (145) | Gambia | 145 | 49 (184) | Congo, Dem. Rep. | 184 |
| 23 (146) | Burkina Faso | 146 | 50 (185) | Central African Republic | 185 |
| 24 (147) | Senegal | 147 | 51 (186) | South Sudan | 186 |
| 25 (148) | Sierra Leone | 148 | 52 (188) | Libya | 188 |
| 26 (150) | Niger | 150 | 53 (189) | Eritrea | 189 |
| 27 (153) | Comoros | 153 | 54 (190) | Somalia | 190 |
| Source: World Bank (2017b) | | | | | |

In summary, we have argued in this section that – some positive developments since the early 2000s notwithstanding – Africa’s future prospects for sustained and inclusive economic growth remain uncertain. As became obvious in the recent phase of falling commodity prices, many African economies still depend too strongly on natural resources. Furthermore, both public and private investment rates are still low in Africa, as compared to other developing regions. Finally, systematic improvements in economic governance have only occurred in a few African countries, which may partly explain the existing investment gaps. In the subsequent section, we investigate whether the G20 Compact with Africa could help address key remaining bottlenecks.

**Table 4: Corruption Perceptions Index 2016 – Africa**

| Rank (world) | Country | CPI 2016 | Rank (world) | Country | CPI 2016 |
|---|---|---|---|---|---|
| 1 (35) | Botswana | 60 | 27 (123) | Djibouti | 30 |
| 2 (38) | Cape Verde | 59 | 27 (123) | Sierra Leone | 30 |
| 3 (50) | Mauritius | 54 | 29 (136) | Nigeria | 28 |
| 3 (50) | Rwanda | 54 | 30 (142) | Guinea | 27 |
| 5 (53) | Namibia | 52 | 30 (142) | Mauritania | 27 |
| 6 (62) | Sao Tome and Principe | 46 | 30 (142) | Mozambique | 27 |
| 7 (64) | Senegal | 45 | 33 (145) | Cameroon | 26 |
| 7 (64) | South Africa | 45 | 33 (145) | Gambia | 26 |
| 9 (70) | Ghana | 43 | 33 (145) | Kenya | 26 |
| 10 (72) | Burkina Faso | 42 | 33 (145) | Madagascar | 26 |
| 11 (75) | Tunisia | 41 | 37 (151) | Uganda | 25 |
| 12 (83) | Lesotho | 39 | 38 (153) | Comoros | 24 |
| 13 (87) | Zambia | 38 | 39 (154) | Zimbabwe | 22 |
| 14 (90) | Liberia | 37 | 40 (156) | Congo, Dem. Rep. | 21 |
| 15 (90) | Morocco | 37 | 41 (159) | Burundi | 20 |
| 16 (95) | Benin | 36 | 41 (159) | Central African Republic | 20 |
| 17 (101) | Gabon | 35 | 41 (159) | Chad | 20 |
| 17 (101) | Niger | 35 | 41 (159) | Congo, Rep. | 20 |
| 19 (108) | Algeria | 34 | 45 (164) | Angola | 18 |
| 19 (108) | Egypt | 34 | 45 (164) | Eritrea | 18 |
| 19 (108) | Cote d'Ivoire | 34 | 47 (168) | Guinea-Bissau | 16 |
| 19 (108) | Ethiopia | 34 | 48 (170) | Sudan | 14 |
| 23 (116) | Mali | 32 | 48 (170) | Libya | 14 |
| 23 (116) | Tanzania | 32 | 50 (175) | South Sudan | 11 |
| 23 (116) | Togo | 32 | 51 (176) | Somalia | 10 |
| 26 (120) | Malawi | 31 | | | |

Note: Seychelles, Equatorial Guinea and Swaziland are missing.
Source: Transparency International (2016)

# 3 Compact with Africa: Old wine in new bottles?

## 3.1 Basic framework

The CWA is part of the G20 Africa Partnership and was initiated under the German G20 Presidency in March 2017. By 2050, forecasts expect that the African population will at least have twice its current size, and by 2030 it is expected that 450 million African people will have entered the job market (United Nations Department of Economic and Social Affairs, Population Division, 2017; World Bank, 2017a). Yet, for now, the African labour market does not have enough capacity to meet this rapidly increasing demand; population growth is outpacing labour demand. It is expected that only 100 million people of the additional working-age population in 2030 will be able to find work if the current trend continues (World Bank, 2017a). The CWA wants to respond to these challenges by enhancing private investments, especially in infrastructure. The ultimate objective is to create new jobs and possibilities for economic participation in Africa. This would also reduce incentives for African people to emigrate due to unfavourable prospects in their home countries. The compact claims to be closely aligned with existing development agendas, such as the African Union's Agenda 2063 and the 2030 Agenda for Sustainable Development.[7] As described below in more detail, the CWA is not a groundbreaking innovation. However, it is the first large-scale cooperation between the G20 and Africa, and therefore it requires a thorough analysis.

To outline the basic CWA structure, we follow the G20 Compact with Africa report by the AfDB, the IMF and the World Bank (2017), which presents the general CWA framework. As of now, 10 African countries[8] are part of the compact between African countries, the IMF, the World Bank, the AfDB and bilateral G20 partners. In order to participate in the CWA, African countries have to voice their interest and conduct "structured talks" with the international organisations (IOs). Subsequently, a letter of interest to the G20 Finance Track is the last step before the planning stage begins.

The CWA framework is divided into three parts: the *macroeconomic*, the *business* and the *financial framework*. Each part includes measures and instruments proposed by the IOs to achieve favourable economic conditions in all three areas.

Recently, Africa's macroeconomic prospects have been deteriorating. Increasing public debt levels since 2015 in many African countries, poor performance levels and unpredictability of African tax systems, as well as weak revenue mobilisation are only some of the challenges (World Bank, 2017a). To tackle these issues, the IOs designed the macroeconomic framework of the CWA. Its purpose is to ensure that investors face stable macroeconomic conditions in the respective African countries. The CWA report specifically suggests that macroeconomic stability and debt sustainability, domestic revenue mobilisation, public institutions as well as the privatisation of public utilities are key areas for achieving viable macroeconomic conditions. To reach these goals, compact countries shall, among other tasks, strengthen their public investment management and institutional frameworks. The IOs want to assist them by, for instance, providing the Medium-Term Debt

7 We discuss in Sections 3.1 and 3.5, respectively, whether it actually meets this requirement.

8 Cote d'Ivoire, Morocco, Rwanda, Senegal, Tunisia, Ghana, Ethiopia, Guinea, Egypt and Benin.

Management Strategy toolkit, which helps countries develop suitable finance plans for their programmes. In addition, G20 countries shall offer de-risk assistance, such as giving guarantees on government bonds issued by African countries. In this context, it is important to note that the CWA report proposes that "guarantees could be *conditional* on the implementation of sound macroeconomic policies and structural reforms" (AfDB, IMF, & World Bank, 2017, p. 9). Looking at the history of IOs' programmes and reforms in Africa, this idea is similar to the SAPs of the IMF and the World Bank during the 1980s and 1990s.

The CWA report further argues that there are political risks, a lack of policy transparency and an unpredictable environment for investors in African countries – a point we also raised in Section 2.4. In addition, SMEs, in particular, suffer disproportionately from a lack of access to market information and financial infrastructure. Well-functioning institutional frameworks for large infrastructure projects are also rarely present (e.g. Kappel, Reisen, & Pfeiffer, 2017). The business framework addresses these challenges and the need to make African countries more attractive for private investors by reducing actual and perceived investment risks and boosting bankable infrastructure projects. For compact countries – assisted by the IOs and G20 countries – this implies, for instance, implementing regulatory investment frameworks and contracts that are non-discriminatory and transparent. Investors shall be protected against unlawful actions, for example, by providing so-called investor protection guarantees. To further accelerate African infrastructure projects, G20 countries shall increase their pledges in this area and assist in developing bankable public–private partnership (PPP) infrastructure projects.

In addition to the mentioned business risks, there are crucial financial risks that the CWA wants to address. Today's financial infrastructures in many African countries are characterised by high costs and levels of risk (IMF [International Monetary Fund], 2017b). Furthermore, only a few African countries (e.g. South Africa) have functioning local currency bond markets. As a consequence, many of them are missing out on the potential to use bond markets as a source of financing crucial investments (Berensmann, Dafe, & Volz, 2015; Mu, Phelps, & Stotsky, 2013). The financial framework therefore aims at reducing the risk and increasing the availability of financing through, for example, creating and improving domestic debt markets and public infrastructure investment funds. Blended finance[9] as well as other initiatives, such as the de-risk proposal mentioned before, conducted by African countries, the IOs and the G20 countries are supposed to support this target.

Acknowledging the enormous heterogeneity among African countries, the CWA report emphasises the need to find country-specific solutions in all three frameworks. A so-called compact team – consisting of representatives from the targeted African country, the bilateral partners as well as the IOs – defines measures under the general framework. Once this is done, the team contacts and includes private investors to implement the compact. Furthermore, it is the compact team's duty to arrange the contributions from IOs, the African compact country and bilateral partners. The general assignment of responsibilities is quite straightforward: compact countries commit themselves to establish an investor-friendly environment, and G20 countries as well as IOs engage in greater multilateral collaboration and improved assistance, as outlined above. The main role of the IOs is to assist in

9 See OECD (Organisation for Economic Co-operation and Development) (2016a) for information on blended finance.

implementing the measures and reforms of the CWA. They build on their long-standing relationships with African countries and offer advice in different areas. The IMF is mainly responsible for macroeconomic issues, such as developing reliable government revenue sources, whereas the World Bank and the AfDB focus on technical and financial services.

## 3.2 Ownership among G20 countries and African partners

For the CWA to take off and become an established instrument of international development cooperation, it needs broad and continuous support among both the G20 members and the African partner countries. Below, we first shed light on the potential motivations of the most important G20 countries. We then conduct a brief review of African ownership within the CWA, discussing, in particular, whether the CWA provides a good fit with ongoing local initiatives. It has to be noted that, as the CWA is still in its infancy, our assessment is inevitably based on limited information and should therefore be treated as a best guess rather than a precise ex-ante evaluation.

### 3.2.1 Motivations of the G20 countries

The development agendas of the G20 countries and established groups within the G20, such as the EU as well as Brazil, Russia, India, China and South Africa (BRICS), are very diverse, and it can be assumed that this also holds for their approaches towards the CWA. Due to the compact being in its early stages, there are few official documents revealing the attitudes of the G20 towards it. Yet, by looking at the different development agendas and behavioural patterns of the G20 countries, it is possible to get an idea about their likely motivations. We put a special focus on China, which is Africa's most important trading partner and, especially under its new Silk Road Initiative, a major investor in Africa.

*Germany and the EU*

Driven by the refugee influx in Europe over the past few years, German development cooperation has gained new momentum as a means to tackle the root causes of migration. Since the beginning of its G20 Presidency, the German government has emphasised that the G20 would have a strong focus on Africa in 2017. The German Federal Ministry for Economic Development and Cooperation (BMZ) has initiated a new partnership between Europe and Africa – the so-called Marshall Plan with Africa. The plan intends to improve on previous initiatives, in the sense that it wants to strengthen African ownership and end "the days of 'aid' and of 'donors and recipients'" (BMZ [German Federal Ministry for Economic Development and Cooperation], 2017, p. 4). This shall be reinforced by Germany's goal to tie its pledges and assistance to the goals of Agenda 2063 (BMZ, 2017, p. 22). The CWA can be seen as a complement to the Marshall Plan in the German development agenda, despite being a G20 initiative devised by the German Ministry of Finance (BMF). While stating that the CWA does not "reinvent the wheel", Wolfgang Schäuble, the then-German Finance Minister, emphasised that the demand-driven structure of the compact is something new (Schäuble, 2017, para. 2). Furthermore, he assured that Germany was willing to take responsibility for the CWA, even beyond its G20 Presidency. It remains to be seen whether this is more than rhetoric, given that the current German policy on Africa appears to lean more towards bilateral approaches, in particular with the goal of stemming migration.

Even if it is forthcoming, the German commitment alone will hardly guarantee the CWA's success under changing G20 Presidencies. It is therefore necessary to examine other G20 members' perceptions towards the CWA. To create initial momentum for the CWA, support from the following G20 Presidencies is essential. The incoming Argentina G20 Presidency has chosen "infrastructure and development" as one of three top priorities and has promised to build on the initiatives of the previous Presidency. This may also apply to the CWA, even though Argentina has not yet shown particular interest in Africa. Japan has its own institutionalised engagement with Africa, for example by co-hosting the regular Tokyo International Conference on African Development, but it is uncertain what this implies for the Japanese G20 Presidency in 2019.

Alongside the G20 summit in Hamburg, EU Presidents Jean-Claude Juncker and Donald Tusk underlined the importance of the partnership with Africa and its investment compacts. In addition, they explained that the EU External Investment Plan, which is listed as an initiative in the appendix of the CWA report, would contribute to it by leveraging at least USD 44 million by 2020 (European Commission Press, 2017). Interestingly, the EU External Investment Plan shows many parallels to the CWA. It is meant to be in "perfect harmony" with the G20 Africa Partnership and aims at supporting private investments for inclusive and sustainable growth – including job creation and infrastructure – in Africa. Not only the content, but also the mechanisms resemble one another. The plan is designed to identify investment areas, include private investors and give guarantees in cases where banks hesitate to deal in issuing credit. In this sense, the CWA sees itself as an extension of the EU External Investment Plan. Thus, can we conclude that the EU stands behind the CWA? Yes and no. As an institution, the EU appears to support the CWA. However, the development cooperation landscape within the EU is rather diverse, and member countries differ with respect to their objectives. Hence, it is worthwhile to find out more about the actual ambitions of individual EU member states – in particular the United Kingdom and France, which are the most important EU members, by far, regarding investments in Africa (Kappel, 2017).

In January 2017, the British Department for International Development formulated a new strategy for development cooperation that encompasses the ambition to increase trade and investment. Additionally, it shall become easier for UK firms to enter markets of developing countries, and the City of London shall become the key player for financial services in development cooperation (Department for International Development, 2017). Although clearly driven by self-interests, British ambitions generally seem to match the CWA, and Prime Minister Theresa May even welcomed it during the G20 summit in Hamburg (Asthana & Wintour, 2017). However, especially in view of the imminent Brexit, the CWA is unlikely to feature prominently on the British agenda. Kiran Collier, Senior Media Officer of the British Department for International Trade, argues: "As we leave the EU, we will have the opportunity to shape our own trade policy, which can only be a good thing for places like Africa" (Deutsche Welle, 2017, para. 11). Hence, encouraged by their newly gained "freedom", British officials might well focus on creating their own relationships with Africa rather than supporting the CWA.

French development cooperation is still very much characterised by the so-called *Francafrique*, which describes its extensive paternalistic influence on former French colonies. It covers military support, currency as well as other economic factors. The approach focusses very much on geopolitical strategies and hardly takes good governance into account (Kappel, 2017). Kappel argues that the French engagement in Africa is still in the spirit of a "scramble for Africa", which is difficult to reconcile with the concept of the CWA.

Overall, it seems that, although the EU and its member states generally support the CWA and its focus on easing investment, important member states follow their own strategies in Africa. Thus, it can be argued that without strong German leadership, which cannot be taken for granted, as Germany also has its own interests in Africa, the CWA is likely to receive limited support from within the EU.

*United States*

US foreign aid, which commands the largest budget worldwide, has traditionally been driven by geopolitical as well as security concerns, but it has also repeatedly put its weight behind multilateral initiatives such as the fight against HIV/AIDS. It could therefore be a powerful supporter of the CWA. Within the US aid system, the Office of Private Capital and Microenterprise of the United States Agency for International Development is responsible for mobilising private resources and establishing investment partnerships in developing countries (United States Agency for International Development, n.d.). The general activities within this office seem to have similarities to the CWA, but the administration of President Donald Trump has not paid it any attention. While welcoming an increase in investment and trade between the United States and Africa, the new foreign aid agenda under President Trump mainly wants to enhance the fight against terrorism through bilateral deals, and does not even mention multilateral cooperation within the CWA (White House Press, 2017). Furthermore, foreign aid allocations are expected to be cut drastically in the 2018 US budget (McBride, 2017). Consequently, it is very likely that the CWA will be of no notable relevance for the current US administration.

*China and the BRICS*

The BRICS countries have become an increasingly important voice in global governance and within the G20. They have, for instance, established the New Development Bank, which some view as a potential counterweight to the Bretton Woods institutions (Semrau & Thiele, 2017). During their summit in Durban 2013, the BRICS promised to mobilise resources for infrastructure and sustainable development projects based on "mutual benefit" (BRICS, 2013). Given the group's general interest in investment partnerships, it is remarkable that the CWA was not a noteworthy topic during the informal meeting the BRICS held alongside the G20 Hamburg summit (BRICS, 2017). To substantiate whether this omission has any deeper implications, we take a closer look at the position of China, which is the most powerful and active BRICS country in Africa.

To our knowledge, there is no official statement that expresses Beijing's view on the CWA. Although, during the 2017 G20 summit in Hamburg, Chinese officials expressed appreciation and support for the 2030 Agenda and Germany's effort to focus on Africa and build upon the consensus of the Chinese G20 Presidency in 2016. President Xi Jinping stated: "Such efforts will both benefit developing countries and generate business and investment opportunities for developed countries" (Chinese Ministry of Commerce, 2017, para. 23). Additionally, right before the G20 summit in Hamburg, Chinese Vice-Minister of Finance Zhu Guangyao explained that the three issues addressed by the German finance ministry – “resilience of the economy, promotion of investment, especially in Africa, and digitalised economy” (China Daily, 2017, para. 11) – are of particular importance.

Although these expressions signal support for the CWA, it has to be kept in mind that China’s strategy towards Africa is guided by the “Five Principles of Peaceful Coexistence” and characterised by non-interference and respect for sovereignty, which contrasts with the promotion of “good governance” by other G20 members. In the past, there have been various instances in which China was criticised for its non-caring position on governance as well as human rights and was accused of counteracting the EU’s governance policy[10] (Stahl, 2011; Taylor & Wu, 2013). With the three frameworks described above, the CWA also puts a strong focus on good economic governance as a precondition for productive investment. The Chinese government, by contrast, argues that improved economic framework conditions are a result of economic development, and not vice versa. As a result, China does not apply the kind of conditionality that has characterised Western development cooperation (Tull, 2006; Stahl, 2011). Furthermore, Beijing assumes that China itself is still a developing country that engages in “South-South cooperation”. In doing so, bilateral relationships are the most common form of Chinese engagement.

Trade and FDI, especially in resource-rich countries, are the most important aspects of China’s engagement in Africa (Tull, 2006; Sun, 2014). Today, China is Africa’s largest trading partner (Sun, 2014). It is nearly impossible to disentangle China’s foreign assistance from its trade and investment policy in Africa. Very common targets are mining as well as large-scale infrastructure projects, which are closely linked to financial flows. In this context, the “Angola-mode” is the best known and highly debated modus operandi. It describes a very comprehensive approach whereby the Chinese Export-Import Bank funds combined large-scale resource and infrastructure projects – for instance in mining, oil and railways in Angola – that are conducted by Chinese companies. Note that Chinese investors are also involved in other areas such as processing industries and the services sector (Kaplinsky & Morris, 2009; Kappel, 2017). Under the new Chinese Silk Road Initiative, the importance of investments in infrastructure is likely to increase again, as current Chinese investments in East African ports (in Dar es Salaam, Bagamoyo and Mombasa) already show. The initiative also supports infrastructure that connects eastern and southern Africa (Kappel, 2017). In all these activities, the general approach is to strictly focus on the economic sphere and to put aside issues such as human capital development and institution-building (Zafar, 2007).

Despite the differences in the approaches of engaging with Africa, pragmatic collaboration between China and other major G20 countries appears to be possible. Demissie and Weigel (2017), for example, argue that the G20 Presidency of Germany provides a good chance for China and Germany to conduct joint projects in Africa. While China would make use of its expertise in infrastructure investments, Germany could take care of governance issues. Applying this idea to the whole G20 group, there is one promising example among the ongoing initiatives of IOs listed in the appendix of the CWA report, which is partly funded

10 For example, Chinese arms trade with African countries was mentioned (Stahl, 2011).

by the World Bank China Trust Fund[11] and shall be implemented in 2018. The "Grid Connected Solar Development in Sub-Saharan Africa" project aims at fostering solar electricity generation through improving the private investment environment in sub-Saharan Africa (AfDB, IMF, & World Bank, 2017, p. 42). Given its general endorsement of the CWA, it is thus quite likely that China will actively participate in selected CWA projects. Yet, given its own initiatives that it is already involved in, its mainly bilateral approach to development cooperation and its reluctance to accept good governance as a precondition for engagement, China will hardly become a main driving force behind the CWA.

Among the remaining BRICS countries, India and South Africa are most likely to be interested in the CWA.[12] India is the second-most-engaged BRICS country in Africa and, with rising levels of investment, it increasingly perceives itself as a competitor to China. It generally supports the G20 Africa Partnership, and even though there is no explicit reference to the CWA (Paulo, 2017), it might regard it as a counterweight to China's Silk Road Initiative. South Africa has strong trade and investment links with several African countries and would definitely benefit from improved investment conditions throughout the continent.

### 3.2.2 African initiatives and ownership

The G20 as well as the IOs have recognised the importance of African ownership within the CWA on many occasions. Due to the compact being in its early stages, there is little direct evidence on whether these promises will be kept. On the one hand, experiences from the first compacts with African partners suggests that the approach is really demand-driven, accounting for the local investment priorities (see Section 3.3). On the other hand, it is not clear to what extent that the hint about conditionality in the IOs' document on the CWA (see Section 3.1) might imply restrictions on African ownership.

Indirect evidence can be obtained by looking at Agenda 2063 and the Programme for Infrastructure Development in Africa (PIDA). Alignment with these African initiatives is explicitly mentioned as a goal by the G20 Africa Partnership as well as the CWA (AfDB, IMF, & World Bank, 2017). Considering the internal structure and content of these agreements, we find that there are indeed several similarities. With regard to the macroeconomic framework, Agenda 2063 points out that domestic resource mobilisation needs to be strengthened and recognises the importance of increasing the usage of bond markets as a source of financing (Agenda 2063, 2015a, p. 18). Expanding PPPs in infrastructure development constitutes another important building block of Agenda 2063, which matches the ambitions of the CWA business framework. Additional similarities exist in the financial framework. Through blending, that is, accelerating public grant financing, Agenda 2063 wants to attract private investors for infrastructure and other projects, which is coherent with the CWA. The same holds for improving the availability of funds as well as financial services in general (Agenda 2063, 2015b). Building on this, PIDA emphasises the importance of private capital and addresses the need to harmonise regulations and

11 The World Bank China Trust Fund had an initial volume of USD 50 million and was established in 2015 to reduce poverty through "investment projects, operations, knowledge development and human-resource cooperation" (World Bank, 2015, para. 6).

12 Whereas Russia is hardly engaged in Africa, Brazil's development cooperation is only starting to include recipients in Africa, and the focus is mainly on the social sector (Semrau & Thiele, 2017).

contractual frameworks to meet the requirements of private investments (e.g. Programme for Infrastructure Development in Africa, 2017, p. 19).

The considerable similarities between the agreements suggest that African interests are indeed represented in the CWA. This constitutes an important precondition for African ownership when implementing measures under the CWA framework. However, it has to be noted that – compared to the existing African agendas – the CWA does not contain any groundbreaking innovations. Instead, as pointed out by Kappel and Reisen (2017) as well as Lay (2017), the CWA falls short of – or only insufficiently addresses – many important aspects that are needed to tackle challenges in Africa. These are, for instance, education, environmental sustainability as well as the specific circumstances of low-income countries in Africa. We argue in Section 3.3 that especially investments in education are an essential requirement for successful investments. This is reflected in Agenda 2063, which calls for vast expansions in education and research initiatives. It also advocates an African development approach that learns "from the diverse, unique and shared experiences and best practices of various countries and regions" in Africa (Agenda 2063, 2015b, p. 20).

Overall, if African ownership had been the main priority, the CWA should have been rooted firmly in the existing local initiatives, arguably without setting up a detailed new framework. Now that the CWA has been established in its current form, ownership can still be promoted by collaborating closely with PIDA, which shares many of the CWA's goals.

## 3.3 Will the successful applicants benefit?

As discussed in Section 3.1, the objective of the Compact with Africa is to strengthen the macroeconomic, business and financial frameworks of African countries so as to boost private investment and increase the provision of infrastructure. The CWA is meant to help African countries overcome deficiencies in private incentives that prevent firms from investing and adopting modern production techniques and achieving scale economies. As a result, this could create new demand spillovers while increasing market size and generating self-sustaining growth.

Initiated by the German Ministry of Finance, the compact promises several benefits for African countries. Among those are (see Federal Ministry of Finance, 2017):

(1) Enhanced investment framework

(2) Comprehensive and tailor-made approaches by IOs

(3) Encouraging private investors at home and from partner countries

(4) Providing a political platform to advertise change

*Investment priorities and frameworks*

From the preliminary investment matrices of the 10 selected candidates, it appears that the tasks of the IOs and the national development bodies are carefully coordinated and responsibilities are clearly assigned. This is an essential precondition for the establishment of efficient investment frameworks.

Judging by the diverse investment portfolios of the individual compacts, the CWA appears to be demand-driven, in the sense that it takes national investment priorities into account. The 10 selected countries present a wide range of investment opportunities in different sectors, such as energy, agriculture, agribusiness, information and communication technology (ICT), automobile, textile, digital economy, aerospace and aeronautics, among others. By contrast, investment opportunities in health care, housing, education or food security do not play a major role. It is noteworthy that only Senegal prioritises fisheries and food, whereas Rwanda focusses on affordable housing.

At the macroeconomic level, the CWA countries face similar difficulties in terms of debt management. All of the 10 selected countries aim to improve their domestic revenue mobilisation by reforming the tax system, stabilising external debt and improving budget discipline. Interestingly, public-sector debt reduction is not mentioned for the case of Rwanda, although its debt has increased considerably over the last four years (IMF Rwanda, 2016). CWA countries tap different sources of finance to improve public investment management as well as transparent and competitive planning. For instance, Rwanda aims to establish a financial swap that can lower private-sector-investment finance costs. An increase in social spending to reduce poverty is mentioned in the compact with Benin (IMF Benin, 2017).

At the business level, strengthening investor aftercare, dialogue and monitoring as well as the improvement of trade logistics appear to be the overall priorities in the investor matrices. Foreign investor protection, for example through guarantees, seems to figure more prominently than the protection of domestic ones. The development of broader investment schemes, such as the establishment of industrial parks, is so far only intended for the case of Rwanda (CWA Rwanda, 2017). The development of PPPs is prioritised by several countries, including Morocco, Cote d'Ivoire, Ethiopia, Senegal and Tunisia (CWA, 2017). Tunisia is the only country that highlights the importance of combating corruption (CWA Tunisia, 2017), even though other African countries face similar problems with corruption that might impair the business environment. There is also little evidence that poverty reduction is a key priority in the business framework, even though the ultimate objective of the G20 Africa Partnership is to help "address poverty and inequality as root causes of migration" (G20 Germany, 2017, p. 13). Cote d'Ivoire is one of the few countries to highlight the need for pro-poor activities: it plans to establish a roundtable on poverty with the private sector to discuss the performance of public utilities (CWA Cote d'Ivoire, 2017).

With regard to the financial framework, there is a particular focus on de-risking investments in specific areas such as housing, exports and agriculture. Affordable housing funds or agriculture risk-sharing facilities are, for example, intended to be used in Rwanda. Improving financial institutions and access to credit are key priorities in Tunisia (CWA, 2017). Morocco uses efficient risk-mitigation instruments in different sectors by establishing, for example, a guarantee system, seed funds or even business angels and crowdfunding to support the promotion of start-ups.

Overall, although it is too early for a thorough assessment, the CWA appears to provide crucial preconditions for reaching the objective of boosting private investment in the participating countries. However, the objective itself may be too narrow to achieve sustainable and inclusive growth, as we argue in the following.

*Missing dimensions*

One issue the CWA virtually neglects is the importance of structural change for sustained economic growth. As described in Section 2.2, a shift from agricultural activities to manufacturing and, in particular, services has created a large set of mainly SMEs in Africa, even though agriculture and natural resources still constitute economic mainstays on most of the continent. These sectoral shifts, which have not yet induced the large productivity increases seen in other regions, can be considered as the start of a "structural transformation process" (Kappel & Reisen, 2017), which still has a long way to go towards creating a modern economy that also includes a modernised agricultural sector.

By focussing mainly on attracting FDI, the compact fails to account for the importance of African entrepreneurship. So far, African firms have not been mentioned in the investment matrices. The problem with the low productivity levels of many African firms – and the related question of whether there is scope for capacity-building measures – has also been disregarded. Only in the Ethiopia case is the need for a higher level of productivity in the manufacturing sector mentioned (CWA Ethiopia, 2017). Since structural transformation is a slow process, many African countries will remain resource-dependent for some time to come. When implementing the CWA, strategies for the management of price volatilities should therefore explicitly be included.

In order to modernise African economies and induce productive investment, skilled workforces are essential. Enterprises surveyed in the United States, Europe, India and South Korea state low labour productivity levels as the single-most important investment barrier besides political stability (African Center for Economic Transformation, 2014). Hence, the investment concept of the CWA should be broadened so as to include investment in education. This would also help tackle the challenge of youth unemployment. Approximately 20 million jobs need to be created every year until 2035 to absorb the large number of new entrants (Lagarde, 2017). Good quality education, including vocational training, could provide them with important skills for the labour market. Those countries hosting a large number of refugees face even bigger challenges. Ethiopia, for example, has to cope with more than 800,000 refugees in addition to a high level of youth unemployment. Its key priority is to create 2 million jobs in medium-sized and large businesses by 2025, mainly by increasing the contribution of manufacturing to overall GDP (CWA Ethiopia, 2017). However, the CWA has not yet been targeted to fulfil these priorities; in particular, it has drawn too little attention to education.

A further drawback of the CWA is its narrow focus on economic outcomes such as growth (see also Section 3.5). According to recent forecasts by Kharas and Fengler (2017), the number of people living in extreme poverty (less than USD 1.90/day) will rise in 19 African countries by 2030, but the compact does not systematically take the poverty impacts of investment into account. Assuming that poverty reduction is the ultimate development goal – and given that the poverty impacts of investment can vary tremendously – poverty assessments should be mandatory in the investment compacts that are drawn up with individual countries. In the same vein, the compacts should monitor the impacts of private investments on the environment, for example through environmental impact assessments, in order to minimise the risk of severe negative externalities. For instance, when investors do not regulate their wastewater properly, this can have disastrous consequences for humans and the environment.

Another aspect the CWA could pay more attention to is the additional assistance that least-developed countries in Africa may need. For instance, since most low-income countries hardly participate in global value chains, trade facilitation is crucial for accessing foreign markets in order to benefit from technological spillovers (Kappel & Reisen, 2017). Low-income countries also often lack the institutional, banking and liquidity prerequisites for blended finance.

Finally, the structure of financial flows and access points for the private sector have not been very transparent thus far. Although some countries have already identified specific projects as business opportunities, it remains unclear how much national governments and IOs must contribute before crowding in private investment. Within the CWA, the mandates are clearly distributed to IOs and national development organisations, but the involvement of the private sector has yet to be determined. Notably, there is no option on the website where a private-sector entity could immediately state its interest in particular projects.

Since the CWA is still in its early stages, there is ample room for improvements in the implementation phase, which could bring the compact closer to meeting broader objectives rather than raising levels of private investment. This will require continuous engagement by all the involved stakeholders. Whereas the IOs can help refine the ways in which the individual compacts are actually implemented, broader initiatives for a reform of the CWA arguably have to come from the G20 Presidencies and the African partner countries.

### 3.4 How to deal with potential applicants: the example of Nigeria

The 10 countries that have signed up to the CWA so far vary in the areas of demographics, economy, quality of governance and the efforts they are putting into improving their macroeconomic, business and financial frameworks. From their experiences, it is therefore hard to tell how many more countries have a realistic option of joining the CWA in the foreseeable future, and the CWA report does not provide any clear criteria. Yet, in a continent of 54 countries, many more countries need to participate in order for the initiative to be called a Compact with *Africa*. One such country could be Nigeria, the most populous in the continent, with about 190 million inhabitants. It represents a category of African countries with rather weak institutions but high poverty levels. Such countries are not only handicapped in agreeing on reforms but also in their capacity to implement reforms agreed upon (Andrews, Pritchett, & Woolcock, 2017). We examine how Nigeria may benefit from the proposed CWA and also look at where Nigeria stands vis-à-vis the macroeconomic, business and financial frameworks specified in the CWA.

Nigeria is Africa’s largest economy and has repeatedly been tipped as a potential candidate for G20 membership. After years of positive growth, the economy slipped into recession in the first quarter of 2016 due largely to plummeting crude oil prices (see Section 2.1). Though the economy recently came out of the recession, massive unemployment, ailing public infrastructure as well as corrupt public service, insecurity and widespread poverty remain major challenges facing the country. With a disappointing revenue base, the government has remained under intense pressure to meet its obligations and is increasingly looking for external sources to fund its huge infrastructure deficit as a way of promoting growth. According to the National Integrated Infrastructure Master Plan (NIIMP) of 2015, the amount of investment needed to meet the current infrastructure deficit in Nigeria is put at about USD 3 trillion over the next 30 years (see Table 5). The NIIMP estimates that this annual investment would have to rise from the current USD 9-10 billion (about 2 per cent of GDP) to an average of USD 33.2 billion in the medium term. Therefore, attracting private investment, in particular investment in infrastructure, through the CWA would certainly benefit the country.

**Table 5: Infrastructure concept and estimated cost to the Nigerian government**

| | Scope (examples) | Cost USD (% of total cost) |
|---|---|---|
| Transport | – Roads, rail, ports and airports: includes investment in building the assets | 775 billion (25) |
| Energy | – Generation, transmission and distribution (includes power equipment such as "boiler-turbine-generator")<br>– Refineries, oil and gas pipelines | 1,000 billion (33) |
| ICT | – Investment in telecom lines and transmission towers | 325 billion (11) |
| Social infrastructure | – Public utility buildings (schools, hospitals) | 150 billion (5) |
| Housing & regional development | – Low-income (social) housing | 350 billion (11) |
| Security & vital registration | – Public utility buildings (police offices, barracks, fire stations) | 50 billion (2) |
| Agriculture, water & mining | – Water treatment plants, sanitation plants; irrigation systems<br>– Rail and waterway mining infrastructure | 400 billion (13) |

Note: All amounts are based on costs at constant 2010 prices.
Source: Federal Republic of Nigeria (2015)

The government's medium-term economic blueprint is contained in the Economic Recovery and Growth Plan (ERGP) (2017-2020) and the Medium-Term Expenditure Framework (MTEF) (2018-2020). The reforms included in these documents cut across the three frameworks of the CWA, as follows (see also Appendix for details).

In line with the *macroeconomic framework,* macroeconomic stability and debt sustainability are getting attention. The government maintains a 20 per cent debt-to-GDP ratio and projects even lower rates for subsequent years based on its promise to raise more revenues from more non-oil sources. Efforts are also aimed at ensuring better revenue collection. This is consistent with the plan to avoid potential risks associated with oil-price shocks. Other reforms have focussed on ensuring a more functional public service delivery. Despite these reforms, state and local government finances remain weak, even though the budget was mostly financed by commercial banks, thereby raising borrowing costs for private businesses. Many citizens across the country are still not able to access basic public services.

In line with the *business framework,* recent reforms to ensure reliable regulations and institutions have led to shorter business registration periods. Investor protection and dispute-resolution mechanisms have made property transfers easier and more transparent, while new regulations have led to improvements in project preparation and the standardisation of contracts. Due to these recent efforts, Nigeria is among the top 10 most reforming countries in the World Bank's Ease of Doing Business ranking for 2018. These quick wins notwithstanding, monetary policy, inconsistent exchange rate management, an insufficiently resilient banking sector and the absence of complementary structural reforms still plague the private sector.

In relation to the *financial framework*, Nigeria’s strategy has previously been to deepen the domestic debt market by incurring debt, mostly from domestic sources. There is now a shift towards long-term external financing to curtail the costs of domestic debt financing as well as the crowding out effects on the private sector. An example is the successful listing of a USD 1 billion 15-year Eurobond issued in February 2017 at the London Stock Exchange Group. The AfDB has recently approved a USD 600 million loan as a risk-mitigation instrument in support of Nigeria’s own efforts to cope with macroeconomic and fiscal shocks. However, considering the current foreign exchange constraint, poor implementation of a policy with greater exchange rate flexibility has dampened investor confidence and generated large imbalances in the foreign exchange market (IMF, 2017a).

This brief description reveals a commitment to reforms but rather mixed outcomes, and it also points to deficiencies in the implementation capacities of public agencies, which is characteristic of many African countries (Pritchett, Woolcock, & Andrews, 2013). To obtain an indication of how large the gap between countries such as Nigeria and more successful reformers is, Table 6 presents a set of indicators from the 2016 World Bank Country Policy and Institutional Assessment (CPIA) relevant to the CWA frameworks. Four subscribers to the CWA with above-average scores across indicators are compared to a group of three countries, including Nigeria, that are not yet participating in the CWA. The performance of the latter group of countries is weaker, in particular with respect to fiscal policy, but overall the differences between the two groups are not very large. Hence, concerted efforts under the CWA that encourage countries such as Nigeria to commit to additional reforms in their major areas of weakness – and that ensure technical support from international development organisations for the implementation of these reforms – could help close the identified investment gaps in infrastructure. The process of bringing this group of countries closer to the CWA could be facilitated if the G20 members and the IOs clearly and transparently outlined the path towards participation. This might also provide a helpful benchmark for other countries that lag even further behind in terms of institutional quality.

**Table 6: Country policy and institutional assessment for selected African countries, 2016**

| Indicators (1=low to 6=high) | Senegal | Ethiopia | Rwanda | Ghana | Nigeria | Malawi | Zambia |
|---|---|---|---|---|---|---|---|
| CPIA business regulatory environment rating | 3.5 | 3 | 4.5 | 4 | 3.5 | 3 | 3.5 |
| CPIA efficiency of revenue mobilisation rating | 3.5 | 4 | 4 | 4 | 3 | 4 | 3.5 |
| CPIA financial-sector rating | 3.5 | 3 | 3.5 | 3 | 3 | 3 | 3.5 |
| CPIA fiscal policy rating | 4 | 3.5 | 4 | 2.5 | 3 | 2.5 | 2.5 |
| CPIA macroeconomic management rating | 4 | 3.5 | 4 | 3 | 3 | 3 | 3 |
| CPIA public-sector management and institutions cluster average | 3.6 | 3.5 | 3.7 | 3.6 | 2.8 | 3.2 | 3.2 |

Source: World Bank (2016)

### 3.5 Is the compact in line with the 2030 Agenda?

The 2030 Agenda for Sustainable Development with its 17 Sustainable Development Goals (SDGs) is the most ambitious, diverse and universal development roadmap in history. Investment needs for the SDGs in developing countries are estimated to be in the order of USD 3.3 to 4.5 trillion per year (OECD, 2016b). The 2030 Agenda stresses the importance of using public investment instruments and vehicles to leverage the unprecedented levels of private finance required to fund this agenda. Developed countries have committed to mobilising USD 100 billion per year by 2020 to support developing-country efforts (OECD, 2016b, p. 19). The OECD states that "to tackle these global and interlinked concerns, a diverse array of stakeholders will need to join forces –with the private sector taking a pivotal position" (OECD, 2016b, p. 19). This implies that the 2030 Agenda requires increased resources from the private sector to be able to achieve the agreed goals. With its mandate to promote private investment, the G20 CWA should therefore be a welcome contribution to the 2030 Agenda. Yet, whether it is in line with the 2030 Agenda also depends on how the investments affect the achievement of specific SDGs. In what follows, we briefly comment on this for selected SDGs that are of particular importance in the African context.

**SDG 1 – No poverty/ SDG 2 – Zero hunger**: As stated in Section 3.3, poverty reduction is not a main focus of the compact, even though persistent poverty is arguably the most severe development challenge in a number of African countries. Cote d'Ivoire and Senegal are the only countries that target investment towards food security.

**SDG 4 – Quality education**: This SDG is not sufficiently targeted. Education is mentioned but not included as an investment focus, even though – especially for a large number of youths – it is tremendously important to develop the skills of youths and enable them to enter the labour market, for example by providing vocational training.

**SDG 6 – Clean water and sanitation**: The compact discusses the importance of health care, but the provision of clean water and sanitation, which represents essential social infrastructure in most African countries, does not appear to be a priority.

**SDG 7 – Affordable and clean energy**: Although Africa has a huge potential for renewable and clean energy, such as solar power, only Morocco and Ghana mention renewable energy in their investment portfolios.

**SDG 8 – Decent work and economic growth**: The compact describes economic growth as a key priority but neglects labour and social standards. Youth unemployment is mentioned in the compact, but there needs to be a greater focus on preparing the youth for the labour market (see SDG 4).

**SDG 9 – Industry, innovation and infrastructure**: This is the main SDG targeted by the CWA. A lack of infrastructure is seen as a key bottleneck that hinders FDI in Africa, and substantial benefits from FDI spillovers are only expected if Africa industrialises and innovates. What is not mentioned in the CWA is that investors should strive for the adoption of clean and environmentally sound technologies (Target 9.4) to prevent negative external effects on other sectors.

**SDG 13 – Climate action:** This is not addressed in the CWA – even though climate change causes severe damage such as crop shortfalls and food crises – and is expected to become a major driver of emigration to Europe. Climate action in Africa would not only mean climate change mitigation. Perhaps even more urgently, many countries need assistance in adapting to the consequences of climate change.

**SDG 16 – Peace, justice and strong institutions**: The CWA aims at a transformation of institutions, for example by making the tax system more efficient, but it could take additional governance performance indicators such as the rule of law, the level of corruption and government effectiveness into account. More fundamental issues such as securing peace and justice are probably beyond the scope of the CWA.

To sum up, the CWA touches upon different SDGs, in particular SDG 8 and SDG 9, but clearly falls short of being in line with the spirit of the 2030 Agenda. This is mainly because it neglects important social and environmental aspects such as poverty reduction and education as well as the negative externalities of investments in specific sectors focussed on livelihood and well-being.[13] Accordingly, Kappel and Reisen (2017) state that "ignoring the social and environmental costs of the CWA big push strategy means that the G20 turns against international solutions – like the climate agreement and the Sustainable Development Goals agenda". In a similar vein, Lay (2017) urges the parties involved in the CWA to force private investors to comply with international labour standards and environmental protection mechanisms in order to minimise the ecological and socio-economic damage caused by their investments.

## 4 Conclusions

In this discussion paper, we have argued that, despite some undeniably positive developments since the early 2000s, Africa's future prospects for sustained and inclusive economic growth remain highly uncertain. As became obvious in the recent phase of falling commodity prices, many African economies still depend too strongly on natural resources. This not only leads to volatility in growth rates but also implies that growth is associated with insufficient poverty reduction. Furthermore, both public and private investment rates are still low in Africa, as compared to other developing regions. Finally, and perhaps most fundamentally, systematic improvements in economic governance have only occurred in a few African countries, which may partly explain the existing investment gaps. With its emphasis on raising investment based on a stable macroeconomic and regulatory framework, the G20 Compact with Africa could therefore play an important role in addressing key remaining bottlenecks.

Yet, for a variety of reasons, it is far from clear whether the G20 Compact with Africa will live up to expectations. We find that, despite its potential to bring important structural benefits and financial flows to Africa, the overall scope of the CWA investment concept is rather limited. In this regard, we find that the absence of important factors such as investments in education and, in particular, vocational training might limit the CWA's success when it comes, for example, to tackling youth unemployment (see Section 3.3). There also appears to be too strong of a focus on FDI, as compared to strengthening

13 Interestingly, the UN has not been actively involved in the process of developing the CWA, which may at least partly explain why social and environmental considerations are underrepresented in the CWA.

domestic investment. Furthermore, judged against its recognition of the goals of the 2030 Agenda, the CWA too narrowly focusses on achieving economic growth in Africa. To bring the CWA more closely into line with the 2030 Agenda, it should at least be ensured that the likely poverty impacts of the investment programmes are systematically assessed so as to render them as pro-poor as possible. Since African livelihoods critically depend on environmental conditions such as clean water and a stable climate, the possible negative externalities of investments should also explicitly be taken into account when implementing the CWA (see Section 3.5).

We additionally find that the CWA is rather non-transparent in several aspects. It is not very clear, for example, how decisions within the CWA are made, and it is hardly possible to track financial flows. Another ambiguity relates to the criteria that countries have to meet in order to qualify for participation in the CWA. As shown for the example of Nigeria, which even has a reform agenda in place that cuts across the three frameworks of the CWA, it is hard to assess what it takes to enter an agreement (see Section 3.4). Put differently, it would be easier for prospective participants of the CWA to take the necessary preparatory steps if the criteria were sufficiently transparent.

Finally, the CWA can only be successful if both the G20 members and the African partners take responsibility for it. Concerning ownership, it is reasonable to be sceptical of whether the commitment to support the CWA goes beyond the German G20 Presidency. While being interested in fostering private investments and infrastructure in Africa, major players within the G20 appear to have their own interests and approaches that might compete with the CWA (see Section 3.2). It should be acknowledged that the G20 countries and the IOs emphasise African ownership. Even if it is not yet clear what role conditionality will play, we conclude that the demands of African partners are generally represented within the CWA framework. However, against the backdrop of existing comprehensive African agendas, such as Agenda 2063 and PIDA in particular, the CWA’s self-attributed focus on local ownership appears to be somewhat inconsistent. A thorough approach to strengthen African ownership would have built more widely on local ideas and agendas, rather than setting up a new scheme exogenously (see Section 3.2). However, as the CWA will not be reversed, it is crucial to ensure that it goes together with local interests and priorities. This is arguably the most critical pre-condition for a successful CWA, because past experience – for example with SAPs – has shown that, without strong local ownership, development assistance from the international community is likely to fail.

Overall, there is considerable scope for improvements in implementing the CWA. These are essential if the CWA is to play an important role for Africa. Still, only time will tell whether the CWA can maintain its momentum in a complex setting of changing G20 Presidencies and divergent development cooperation concepts.

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## Appendix: Nigeria's policy matrix

| NIGERIA'S POLICY MATRIX | | | |
|---|---|---|---|
| **Focus areas** | **Government action** | **Indicators & targets** | **Status** |
| **1. Macroeconomic framework** | | | |
| **Ensure macroeconomic stability and debt sustainability** (*Source document: Economic Recovery and Growth Plan (ERGP) 2017-2020, Medium-Term Expenditure Framework (MTEF), 2018-2020)* | ***Continue fiscal consolidation efforts:*** | | |
| | i) Constrain expenditures within budgetary limits to reduce expenditure overruns | Fiscal deficit as a percentage of GDP (cash) reduced from 1.93% (2017) to 1.0% in the medium term (2020) (maintained at 3% level stipulated by the Fiscal Responsibility Act 2007). | Ongoing |
| | ii) Pursue single-digit inflation rate | Achieve a further reduction in inflation from 16.1% in June 2017 to single digits by 2020 | Planned |
| | iii) Pursue more ambitious growth path | 7% GDP growth in 2020 | Planned |
| | iv) Improve reserve adequacy: gross international reserves were $28.6 billion at end of January 2017, having recovered from less than $24 billion in September 2016 | Continue to improve reserve adequacy | Ongoing |
| **Increase domestic revenue mobilisation** *(Source document: Economic Recovery and Growth Plan (ERGP) 2017-2020, Medium-Term Expenditure Framework (MTEF), 2018-2020; IMF Country Report No. 17/80: 2017 Article IV Consultation – press release; staff report; and statement by the Executive Director for Nigeria)* | - Restructure debt financing in favour of foreign financing to reduce the crowding out of private sector | Increase foreign financing from 28% to almost 72% in 2020, and reduce domestic financing from about 54% in 2016 to about 26% in 2020 | Ongoing |
| | - Enhancing oil revenues and accelerating non-oil (tax) revenue generation<br>i) Improvement in tax administration: registration of 818,000 new taxpayers, arrears collection and targeted tax audits<br>ii) Integrated Personnel Payroll Information System (IPPIS) to all government agencies (elimination of 65,000 ghost workers), and implementation of the Treasury Single Account (TSA) | - Increasing the ratio of non-oil tax revenue to GDP from the current rate of 6% to 15% by 2020<br>- VAT rate for luxury items raised from 5% to 15% from 2018 | Planned |

<table>
<tr><th colspan="3">NIGERIA’S POLICY MATRIX</th><th></th></tr>
<tr><th>Focus areas</th><th>Government action</th><th>Indicators & targets</th><th>Status</th></tr>
<tr><td rowspan="2"></td><td>iii) (1) Improved implementation of a flexible foreign exchange rate regime; (2) introduction of common external tariff (CET); (3) gradual removal of import adjustment tax (IAT) (4) expected decrease in annual average duty rate (ADR); (5) expected increase in import cost, insurance and freight (CIF) as a result of new strategic plans in Nigerian Customs Service (NCS), and import duty on vehicles</td><td>Larger share of revenue from domestic sources</td><td>Planned</td></tr>
<tr><td>Improve revenue from value added tax (VAT)</td><td>- VAT rate in the medium-term from 5% to 10-15%<br>- VAT collection to increase by about 42% in 2018</td><td>Planned</td></tr>
<tr><td>Ensuring sound public investment management<br>(Source document: Medium-Term Expenditure Framework (MTEF), 2018-2020)</td><td>i) Linking the Integrated Payroll and Personnel Information System (IPPIS) to human resources management systems and bank verification numbers (BVNs) to clean the civil service payroll<br>ii) Limiting travel frequency, sitting allowances, printing and publication expenditures, etc.<br>iii) Introducing allowable expenses guidelines and templates to control expenses of government-owned enterprises<br>iv) Developing and implementing a collective demand process for Ministries Departments and Agencies (MDAs) to take advantage of the benefits of group purchasing<br>v) Optimising overheads by sharing services across MDAs and maximising the use of federal government buildings, and<br>vi) Mobilising private capital through government seed-funding</td><td>Continuous improvement in quality of service delivery</td><td>Ongoing</td></tr>
<tr><td>2. Business framework</td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">Reliable regulations and institutions (Source: ICRC 2015 annual report)</td><td>i) Legal amendment to the Infrastructure Concession and Regulatory Commission (ICRC) Act to improve PPP contract enforcement capacity and dispute-resolution mechanism already before the national legislature</td><td rowspan="2">Improved enforcement powers and dispute-resolution mechanism improved to secure investments</td><td>Planned</td></tr>
<tr><td>ii) Legislative process to ensure regulatory reform in specific sectors, including: (i) Inland Waterways Reforms Bill; (ii) Ports and Harbour Reform Bill; (iii) Railways Reforms Bill (iv); Road Sector Reform Bill, and (v) National Transport Commission Bill</td><td>Planned</td></tr>
</table>

| NIGERIA'S POLICY MATRIX | | | |
|---|---|---|---|
| **Focus areas** | **Government action** | **Indicators & targets** | **Status** |
| | iii) the 60-day National Action Plan on Ease of Doing Business has yielded the following:<br>a) reduction of time required to register businesses from 10 days to 2 days;<br>b) harmonisation of information, hitherto in four forms, required on arrival at the airport to one form with only 15 questions; c) reduction in touchpoints for physical examination of cargo between importer and government agencies; d) submission of visa-on-arrival applications, among<br>(iv) Executive Order (EO1) on transparency and improving the business environment | Move Nigeria 20 steps upwards in the World Bank Ease of Doing Business Index in the next four years | Achieved for 2017 |
| **Investor protection and dispute-resolution mechanisms** | - Ease and transparency in property transfer through removal of the sworn affidavit for certified copies of the land ownership records<br>- Publication of statistics on land transfers | Number of days required to register property reduced from 77 to 30 | Planned |
| **3. Financial framework** | | | |
| **Broaden private finance: create instruments for institutional investors** *(Source: IMF Country Report No. 17/80: 2017 Article IV Consultation – press release; staff report; and statement by the Executive Director for Nigeria, ICRC 2015 annual report)* | i) Utilisation of pension funds for infrastructure development<br>ii) Strengthening local financial institutions to finance projects<br>iii) Collaboration with the Nigerian Sovereign Investment Authority (NSIA) to provide infrastructure finance, including instituting the Nigerian Infrastructure Development Fund, and<br>iv) Attracting non-interest finance for infrastructure development | National Pension Commission (PENCOM) has approved the use of 20% of pension reserve funds for infrastructure development | Ongoing |
| **Efficient risk-mitigation instruments** *(Source: IMF Country Report No. 17/80: 2017 Article IV Consultation – press release; staff report; and statement by the Executive Director for Nigeria)* | i) Increased provisioning<br>ii) Strict limits on net foreign exchange positions<br>iii) Prohibition of dividend payments (for banks with non-performing loans (NPLs) higher than 5 per cent) | Financial-sector resilience with higher risk mitigation | Ongoing |

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